



December 2014

# DOD CONTRACT SERVICES

## Improved Planning and Implementation of Fiscal Controls Needed

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# GAO Highlights

Highlights of [GAO-15-115](#), a report to congressional committees

## Why GAO Did This Study

In fiscal year 2013, DOD reported spending more than \$170 billion on contract services—contractors performing functions such as information technology support or maintenance of military equipment—constituting more than half of DOD's total acquisition spending. The National Defense Authorization Act (NDAA) for Fiscal Year 2012, section 808, limited DOD's contract services spending for fiscal years 2012 and 2013 and required reductions in select contract services. Subsequent revisions to the NDAA extended the spending limits through fiscal year 2014.

Congress requested and mandated GAO to review DOD's implementation of the required reductions. This report addresses the extent to which DOD implemented, in fiscal years 2012 and 2013: (1) contract services spending limits, (2) 10 percent funding reductions for closely associated with inherently governmental functions, and (3) 10 percent funding reductions for staff augmentation contracts. GAO reviewed relevant guidance; analyzed DOD financial, inventory, and other contract services data; and interviewed relevant officials.

## What GAO Recommends

Congress should consider extending the time period for DOD's implementation of funding reductions in select contract functions. Further, GAO recommends that DOD improve planning and consistently implement fiscal controls to better manage contract services, among other actions. DOD concurred with the recommendations.

View [GAO-15-115](#). For more information, contact Marie A. Mak at (202) 512-4841 or [MakM@gao.gov](mailto:MakM@gao.gov).

December 2014

## DOD CONTRACT SERVICES

### Improved Planning and Implementation of Fiscal Controls Needed

## What GAO Found

The Department of Defense (DOD) exceeded its identified limit on contract services by \$1.72 billion in 2012 and spent \$500 million less than the limit in 2013. GAO found that all military departments exceeded their Comptroller-provided spending targets in fiscal year 2012 due to late guidance. In fiscal year 2013, some components improved planning and implemented stronger fiscal controls over contract services, such as monitoring spending during the year, helping DOD meet its limit for fiscal year 2013. However, the Army exceeded its spending target in 2013 due to inaccurate budget estimates and weaknesses in planning by not soliciting inputs on commands' contract services spending plans.

### Actions to Manage Contract Services Spending in Fiscal Year 2013 (in billions)

Military Department	Solicited Commands' Inputs <sup>a</sup>	Set Command Spending Targets	Monitored Command Spending	Spent Against Targets
Air Force	✓	✓	✓	\$2.8 under
Army		✓		\$2.7 over
Navy	✓		✓	\$0.5 under

Source: GAO analysis of military department documents | GAO-15-115

Note: Table does not include contract services spending by the defense agencies, which are also included in the spending limit.

<sup>a</sup> A unit or organization reporting to the secretaries of the military departments or the heads of the defense agencies.

Federal internal control standards call for effective control activities that enforce guidance to help ensure stewardship of government resources. Improved planning and consistent implementation of fiscal controls across the department could better position DOD to manage contract services spending.

Comparable and timely data are not available to determine if DOD implemented the mandated funding reductions for contracts with closely associated with inherently governmental functions—those that put the government at risk of contractors inappropriately influencing government decisions. DOD's guidance calls for reliance on data from the annual inventory of contracted services—an identification of the number of contractors and associated costs for services provided to DOD—to measure required reductions; however, these data did not include the obligation data needed to measure funding reductions in closely associated with inherently governmental functions. DOD updated its inventory guidance in 2013 to collect such information, but these data will not be comparable to previous years due to changes in methodology and will not be available until fiscal year 2015, after the statutory requirement has expired.

Similarly, data are not available to determine if DOD met the required funding reductions for staff augmentation contracts—contractors under the direction of a government official. DOD's guidance did not establish a baseline for staff augmentation or identify the data that should be used to determine if the reductions were achieved. DOD issued supplemental guidance in May 2014 instructing components to report in October 2014 on steps taken to implement these reductions. However, the current statutory requirement expired in September 2014.

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### **Abbreviations**

Air Force	Department of the Air Force
Army	Department of the Army
Comptroller	Office of the Under Secretary of Defense (Comptroller)
DLA	Defense Logistics Agency
DTRA	Defense Threat Reduction Agency
DOD	Department of Defense
FAR	Federal Acquisition Regulation
Navy	Department of the Navy
NDAA	National Defense Authorization Act

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December 11, 2014

## Congressional Committees

The Department of Defense (DOD) is the federal government's largest purchaser of contractor provided services, relying on contractors to perform various functions, such as professional and management support, information technology support, and maintenance of military equipment. In fiscal year 2013, DOD reported spending more than \$170 billion on contract services, constituting more than half of the department's total acquisition spending. Like the rest of the federal government, DOD is operating in a constrained budget environment and is facing difficult decisions about how to allocate its resources, including the appropriate balance between civilian and contractor staff to meet mission requirements.<sup>1</sup> Our prior work has shown that there are benefits to using contractors to perform services for the government.<sup>2</sup> However, reliance on contractors to support core missions can place the government at risk of becoming overly reliant on contractors to perform closely associated with inherently governmental functions or creating circumstances in which contractors perform functions deemed inherently governmental.<sup>3</sup>

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<sup>1</sup>Among other constraints, the Budget Control Act of 2011 imposed discretionary spending limits for fiscal years 2012 to 2021. See Pub. L. No. 112-25.

<sup>2</sup>GAO, *Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services*, [GAO-13-491](#) (Washington, D.C.: May 23, 2013) and *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*, [GAO-08-572T](#) (Washington, D.C.: Mar. 11, 2008).

<sup>3</sup> Inherently governmental functions are defined as those that are so intimately related to the public interest as to require performance by government employees and include functions that require discretion in applying government authority or value judgments in making decisions for the government. Federal Acquisition Regulation (FAR) § 2.101. The FAR also provides examples of such functions. FAR § 7.503(c). Closely associated with inherently governmental functions are those that while not inherently governmental, may approach the category because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the government administers performance under a contract. The FAR provides examples of such functions. FAR § 7.503(d).

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The National Defense Authorization Act (NDAA) for Fiscal Year 2012 imposed various limits on DOD's contracted services for fiscal years 2012 and 2013.<sup>4</sup> The goal was to ensure DOD achieved expected savings from planned reductions to its workforce and help maintain the appropriate balance between the civilian and contractor workforce. Among other things, the Act set limits on DOD's total obligations for contract services and required the Secretary of Defense to issue guidance to the military departments and defense agencies to reduce funding for contracts for the performance of functions that are closely associated with inherently governmental. The Act further required that the Secretary issue guidance to the military departments and defense agencies to reduce funding for staff augmentation contracts, which it defined, in relevant part, as contracts for personnel who are subject to the direction of a government official other than the contracting officer for the contract.<sup>5</sup>

You asked us to review DOD's implementation of the section 808 provisions in fiscal years 2012 and 2013. The House Armed Services Committee Report accompanying a bill for the NDAA for Fiscal Year 2015 also mandated that GAO review DOD's implementation of the section 808, as amended.<sup>6</sup> This report addresses the extent to which DOD implemented, in fiscal years 2012 and 2013: (1) contract services spending limits<sup>7</sup>, (2) funding reductions of 10 percent each year for closely associated with inherently governmental functions, and (3) funding reductions of 10 percent each year for staff augmentation contracts.

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<sup>4</sup>Pub. L. No. 112-81, § Sec 808(a) (2011).

<sup>5</sup>Pub. L. No. 112-81, §§ 808(c)(4)(A) and (d)(3). Section 808 also required that the Secretary issue guidance to eliminate any contractor positions identified as responsible for the performance of inherently governmental functions, establish a negotiation objective for labor and overhead rates for contract services with an estimated value in excess of \$10 million which do not exceed the rates paid in fiscal year 2010, and obtain written approval for contracts with an estimated value in excess of \$10 million that provide for continuing services at an annual cost exceeding that for the same or similar services in fiscal year 2010. Pub. L. No. 112-81, §§ 808(c)(3),(c)(1) and (c)(2). These requirements were outside the scope of our review.

<sup>6</sup>H. Rep. 113-446, at 178-179 (2014). Section 808 was amended by section 802 of the National Defense Authorization Act for Fiscal Year 2014, Pub. L. No. 113-66 (2013).

<sup>7</sup>The NDAA for Fiscal Year 2012 limited DOD's authority to obligate appropriated funds for services. For the purposes of this report, we use the term spending to refer to obligations.

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For all objectives, we reviewed relevant laws and guidance, analyzed available data, and interviewed agency officials. Specifically, we reviewed DOD's section 808 guidance to identify steps taken by DOD to implement the statutory requirements. Further, we analyzed DOD Comptroller budget and obligation data for all DOD components—military departments and defense agencies—for fiscal years 2010, 2012, and 2013 to assess DOD's methodology for determining the annual spending limit and the extent to which DOD and individual components adhered to this mandated limit. We compared these obligation data to services obligations reported in the Federal Procurement Data System-Next Generation and found that they were sufficiently reliable for our purposes.<sup>8</sup> To identify data available to establish a baseline for mandated funding reductions in closely associated with inherently governmental functions we reviewed DOD guidance, which identified fiscal year 2011 inventory of contracted services data as the basis to measure reductions in fiscal years 2012 and 2013. We reviewed prior GAO reports on DOD's annual inventory of contracted services and analyzed available data from 29 components for fiscal year 2011.<sup>9</sup> To identify the steps taken by each component to reduce funding of closely associated with inherently governmental functions, we analyzed available data from 32 components for fiscal year 2012. To determine the extent to which the military departments and selected defense agencies achieved mandated reductions in staff augmentation funding, we reviewed DOD's section 808 guidance and available data. In addition, for all objectives, we also discussed implementation efforts with officials from the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics; the Office of the Under Secretary of Defense for Personnel and Readiness (Personnel and Readiness); the Office of the Under Secretary of Defense (Comptroller); and the departments of the Army, Navy, and Air Force. In addition, we interviewed officials from selected DOD defense agencies—the Defense Logistics Agency (DLA) and the Defense Threat Reduction Agency (DTRA)—with the highest reported obligations for closely associated with inherently governmental functions among the

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<sup>8</sup>The Federal Procurement Data System-Next Generation is the primary government-wide contracting database that provides information on all government contracting actions.

<sup>9</sup>GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: Nov. 19, 2014), [GAO-13-491](#) and *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, [GAO-11-192](#) (Washington, D.C.: Jan. 14, 2011).

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defense agencies. A more detailed description of our scope and methodology is presented in appendix I.

We conducted this performance audit from March 2014 through December 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

DOD has implemented a number of initiatives to generate savings from reductions in its civilian and contract workforces in recent years. For example, in August 2010, the Secretary of Defense directed DOD to undertake department-wide efficiency initiatives to reduce duplication, overhead, and excess across the department. Among other things, the efficiency initiatives specified that DOD should freeze (or cap) the civilian workforce at the fiscal year 2010 levels for fiscal years 2011 through 2013.

In 2012 the Senate Committee on Armed Services cited the need to maintain the appropriate balance between the civilian and contract workforce and to achieve the expected savings from reductions in both workforces, and Congress enacted provisions to limit DOD's service contracts. Section 808 of the NDAA for Fiscal Year 2012 limited DOD's total obligations for contract services in 2012 and 2013 to the amount requested for these services in the fiscal year 2010 President's Budget Request. The limit does not apply to contract services for military construction, research and development, and services funded for overseas contingency operations. Additionally, it provides for two adjustments to the spending limit above fiscal year 2010 budgeted levels. DOD may adjust contract services spending above 2010 levels to account for (1) funding increases associated with contract services that were transferred from overseas contingency operations to the base budget and (2) the cost of additional civilian personnel positions over fiscal year 2010 levels. As shown in table 1, DOD identified an aggregate spending limit of \$56.47 billion for fiscal year 2012 and \$57.46 billion for fiscal year 2013.

**Table 1: DOD Aggregate Spending Limit on Contract Services for Fiscal Years 2012 and 2013 (in billions)**

	Fiscal Year 2012	Fiscal Year 2013
2010 budget request for contract services <sup>a</sup>	\$50.88	\$50.88
Adjustment for transfers of contract services funding from overseas contingency operations to the base budget	\$2.56	\$4.35
Adjustment for cost of additional civilian personnel over 2010 levels	\$3.03	\$2.23
<b>Total adjusted aggregate spending limit</b>	<b>\$56.47</b>	<b>\$57.46</b>

Source: GAO presentation of DOD data. | GAO-15-115

<sup>a</sup> These totals exclude budget request amounts for contract services related to research and development, military construction, medical care, and other services from federal sources.

The spending limit identified in the Act applied to the entire department; therefore, components could exceed their individual targets but DOD would still be in compliance with the law if total spending for contract services across the entire department was less than the aggregate spending limit. Section 808 contract services spending limits ended after fiscal year 2013, but Congress extended the spending limit through fiscal year 2014 in section 802 of the NDAA for Fiscal Year 2014.<sup>10</sup> While spending limit requirements currently expire at the end of fiscal year 2014, draft legislation contains a provision to extend the spending limit requirement through fiscal year 2015.

Congress has also enacted legislation to improve the availability of information on DOD's acquisition of services and to help the department make more strategic decisions about the right workforce mix of military, civilian, and contractor personnel. In fiscal year 2002, Congress enacted section 2330a of Title 10 of the U.S. Code, which required the Secretary of Defense to establish a data collection system to provide management information on each purchase of services by a military department or defense agency.<sup>11</sup> In 2008, Congress amended section 2330a of Title 10

<sup>10</sup>Pub. L. No. 113-66, § 802 (2013)

<sup>11</sup>The National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, § 801(c) (2001).

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of the U.S. Code to require the Secretary of Defense to submit an annual inventory of contracted services performed for or on behalf of DOD during the preceding fiscal year.<sup>12</sup> This annual inventory submission includes, among other things, the number of contractor full time equivalents and the associated direct labor cost for these positions.<sup>13</sup> Following the submission of the inventory, the secretaries of the military departments and heads of the defense agencies are to complete a review of the contracts identified in the inventory to ensure, among other things, that the activities do not include inherently governmental functions—which are those that require discretion in applying government authority—such as the determination of budget policy. The review should also ensure that to the maximum extent practicable, the activities do not include any closely associated with inherently governmental functions, which are those that may be at risk of becoming inherently governmental due to the manner in which the contractor performs the work, among other things. Upon completion of this review, the secretaries of the military departments and heads of the defense agencies submit a certification letter to the Office of Personnel and Readiness that outlines the results and any corrective actions to be taken to ensure that contractors are not performing inherently governmental functions and to monitor the use of contractors for closely associated with inherently governmental functions.

Section 808 of the NDAA for Fiscal Year 2012 further reinforced these requirements by instructing DOD to issue guidance requiring the components to reduce funding by 10 percent for fiscal years 2012 and 2013 for contracts identified with personnel performing closely associated with inherently governmental functions. Section 808 also instructed DOD to establish guidance to conduct a reduction of funding by 10 percent for fiscal years 2012 and 2013 for contracts identified with personnel performing on staff augmentation contracts, which it identifies, in relevant part, as contracts for personnel who are subject to the direction of a government official other than the contracting officer for the contract. Unlike the aggregate spending limit, the statutory requirement for guidance on reductions in funding for closely associated with inherently governmental functions and staff augmentation are directed to each

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<sup>12</sup>The National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 807.

<sup>13</sup>A full-time equivalent is a standard measure of labor that equates to 1 year of full-time work.

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component; therefore, the reductions are expected to take place at each component, rather than an aggregate reduction across the department. The section 808 requirement to reduce funding for closely associated with inherently governmental functions and staff augmentation expired in September 2013; however, Congress modified the requirements in section 802 of the NDAA for Fiscal Year 2014, extending the time period for DOD to implement the full 20 percent reduction for both the closely associated with inherently governmental and staff augmentation functions through fiscal year 2014.<sup>14</sup> The fiscal year 2014 period is also referred to as a carryover year—whatever required reductions that DOD did not take in fiscal years 2012 and 2013 are required to be taken in 2014.

While implementing both the civilian and contract services limitations, the department faced uncertainty about funding levels associated with the automatic, across-the-board cancellation of budgetary resources, known as sequestration.<sup>15</sup> In March 2013, the President ordered the sequestration of budgetary resources, resulting in a \$37 billion reduction in DOD's discretionary budget, which includes funding for contract services. As we reported in June 2014, the department implemented an administrative furlough of the civilian workforce to help achieve these reductions, but contract services were not subject to these furloughs and DOD continued to use contracted support under existing contracts.<sup>16</sup>

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<sup>14</sup>Pub. L. No. 113-66, § 802 (2013).

<sup>15</sup>Sequestration was a result of the Budget Control Act of 2011 (Pub. L. No. 112-25 (2011), as amended). The Budget Control Act of 2011, as implemented by the Office of Management and Budget, required spending cuts of \$37 billion from DOD's budget in fiscal year 2013 through across-the-board, proportional reductions in funding provided in the appropriations acts for most defense accounts, including accounts related to DOD's civilian workforce and contracted services.

<sup>16</sup>GAO, *Sequestration: Comprehensive and Updated Cost Savings Would Better Inform DOD Decision Makers If Future Civilian Furloughs Occur*, [GAO-14-529](#) (Washington, D.C.: June 17, 2014)

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**DOD Exceeded the Contract Services Spending Limit in 2012 and Adhered to the Limit in 2013, but Varied Implementation of Fiscal Controls Hampered Some Efforts**

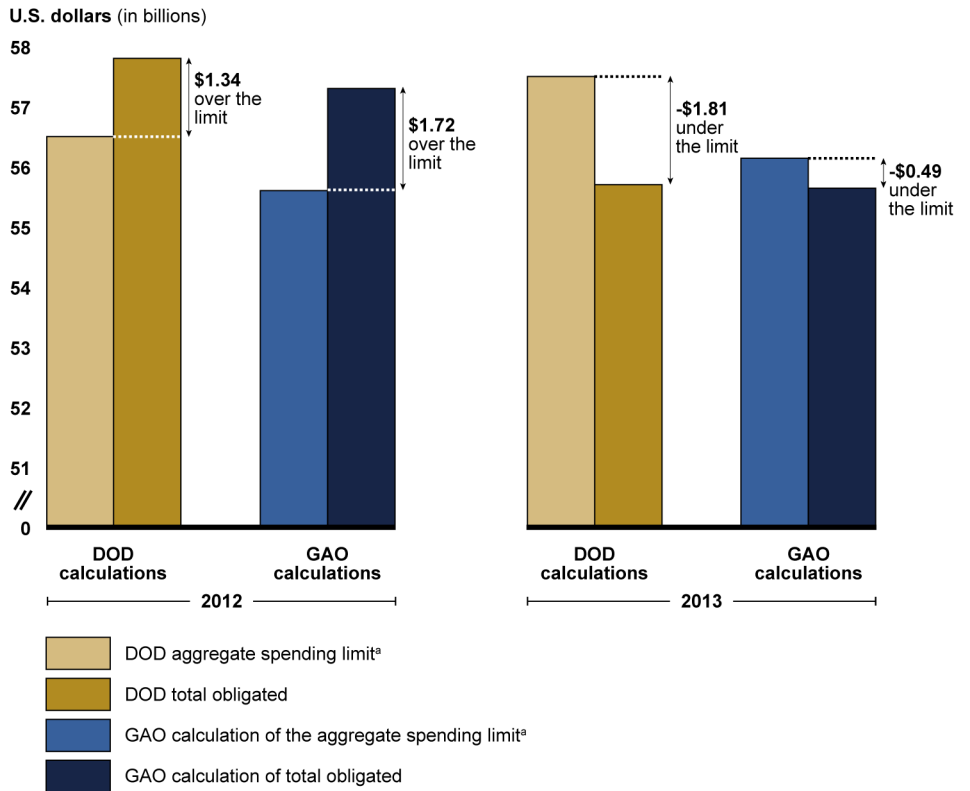
DOD exceeded its spending limit by \$1.72 billion in fiscal year 2012 and spent approximately \$500 million less than its limit in fiscal year 2013. However, DOD reported spending \$1.34 billion more than the limit in fiscal year 2012 and \$1.81 billion less than its limit in fiscal year 2013 because the DOD Comptroller's office—responsible for calculating DOD spending limits and setting spending targets—inconsistently calculated exclusions from the contract services spending limits. Varied implementation of fiscal controls hampered military department efforts to adhere to the spending limits. In fiscal year 2012, DOD exceeded the spending limit because each of the military departments exceeded their respective spending targets. Military department budget officials explained that they took limited steps to adhere to spending targets in fiscal year 2012 due to late guidance from the Office of the Deputy Secretary of Defense. After exceeding the spending targets in fiscal year 2012, some components improved planning and implemented stronger fiscal controls over contract services, such as monitoring spending during the year and prioritizing mission needs to assist in funding decisions, helping DOD meet its spending limit for fiscal year 2013.

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**DOD Comptroller Inconsistently Calculated Adjustments, Overstating the Spending Limits**

DOD reported spending more than its identified limit on contract services in fiscal year 2012 by \$1.34 billion and less than its limit in fiscal year 2013 by \$1.81 billion. However, the DOD Comptroller's office inconsistently calculated adjustments by excluding certain categories of expenditures from the spending limit. By doing so, DOD overstated its calculated spending limit of \$56.47 billion by approximately \$400 million in 2012 and its spending limit of \$57.46 billion by \$1.31 billion in 2013, as indicated in figure 1.

**Figure 1: Comparison of DOD and GAO Spending Limit Calculations for Fiscal Years 2012 and 2013**



Source: GAO analysis of DOD financial data. | GAO-15-115

Note: All dollars are in nominal terms, unadjusted for inflation.

<sup>a</sup> Both DOD and GAO calculations exclude contract services for medical care and other services from federal sources.

In addition to the transfer of contract services funding from overseas contingency operations, DOD's calculation of the spending limit consists of two primary elements: (1) the funding of contract services categories identified in the 2010 President's budget request and (2) the cost of increases in the civilian workforce over 2010 levels. The NDAA for Fiscal Year 2012 permits DOD to exclude spending for military construction, research and development, and services funded for overseas contingency operations in determining its spending limit. DOD's June 2012 guidance instructs the components to exclude these services, but

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also permits excluding other services from federal sources and medical care, which are not specifically identified for exclusion in the law.<sup>17</sup> A Comptroller official said that DOD excluded other services from federal sources because this category includes services purchased on behalf of other federal agencies, such as through the use of interagency agreements, in addition to DOD purchases. The official indicated that DOD was unable to distinguish between services purchased for other federal agencies and those purchased for DOD and therefore excluded the entire category. Additionally, the Comptroller official explained that the exclusion of contracted medical care from the spending limit was done to ensure that medical care was not reduced for service members.

Moreover, the DOD Comptroller's office included approximately \$248 million in research and development funds in the spending limit for both fiscal year 2012 and 2013, while excluding all actual research and development spending from its calculation of adherence to the limit for fiscal year 2013. As a result of this error, DOD overstated the limit by \$248 million. The Comptroller's office acknowledged this inclusion as a coding error and plans to appropriately exclude research and development expenditures from its spending limit in future years.

In addition to excluding certain services from the spending limit, section 808 also permits DOD to increase its spending on contract services above 2010 levels to adjust for cost increases associated with its civilian workforce. However, our analysis found that the DOD Comptroller office's calculation for the civilian workforce adjustment was not consistently applied.

- DOD excluded civilian personnel performing research and development, military construction, and a portion of its civilian personnel that are funded from other federal sources from its adjustment for increases in civilian personnel costs and it also excluded similar contract services when determining the spending limit.

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<sup>17</sup>Other services from federal sources are included in object class code 25.3 as defined by Office of Management and Budget guidance, *Circular No. A-11: Preparation, Submission, and Execution of the Budget*, to include services purchased through the use of interagency agreements.

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- By contrast, DOD did not remove civilian personnel providing medical care from the adjustment for increases in civilian personnel costs; yet it excluded contract services for medical care from the determination of the spending limit.

A DOD Comptroller official explained that a portion of contract services associated with medical care, such as management support, was included in the spending limit, because the Comptroller's office could not separate out the corresponding civilian pay adjustments associated with these personnel. Therefore, the Comptroller's office decided to include all civilian medical related personnel, which accounted for nearly half of the increase in the civilian workforce each year, in the calculation of increases in the civilian workforce. By consistently applying DOD's exclusions for these civilian personnel, we found that DOD overstated the spending limit by approximately \$600 million in fiscal year 2012 and \$1.1 billion in fiscal year 2013.

Inconsistencies in accounting for both research and development and the calculation of civilian workforce increases resulted in DOD's aggregate spending limit being overstated by roughly \$400 million in fiscal year 2012 and \$1.31 billion in fiscal year 2013. As a result, DOD's reported spending over the limit would increase from \$1.34 billion to \$1.72 billion in fiscal year 2012. Similarly, DOD's reported adherence to the cap in fiscal year 2013 would be reduced from \$1.81 billion to about \$500 million.

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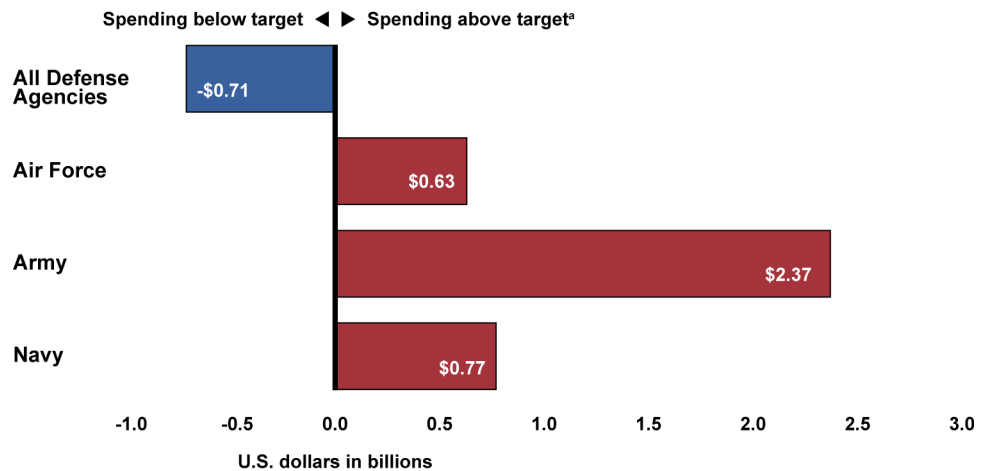
### Military Departments Varied in Implementation of Fiscal Controls to Adhere to Spending Limits

DOD reported exceeding its identified spending limit of \$56.47 billion by \$1.34 billion for fiscal year 2012. In implementing the limit for fiscal year 2012, DOD issued guidance that set contract services spending targets for each of the components below the aggregate spending limit to allow for unexpected costs that may occur during the year.<sup>18</sup> DOD defense agencies spent under their overall target as a group in fiscal year 2012; however, some agencies, such as DLA, exceeded their individual spending targets. Additionally, all of the military departments exceeded their spending targets, as shown in figure 2.

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<sup>18</sup>In fiscal year 2012, DOD set targets for each military department and defense agency totaling \$54.74 billion, which is \$1.73 billion less than the aggregate spending limit of \$56.47 billion, to allow for unexpected costs that may occur during the year.

**Figure 2: Spending on Contract Services against Targets in Fiscal Year 2012**



Source: GAO analysis of DOD financial data. | GAO-15-115

Note: All dollars are in nominal terms, unadjusted for inflation.

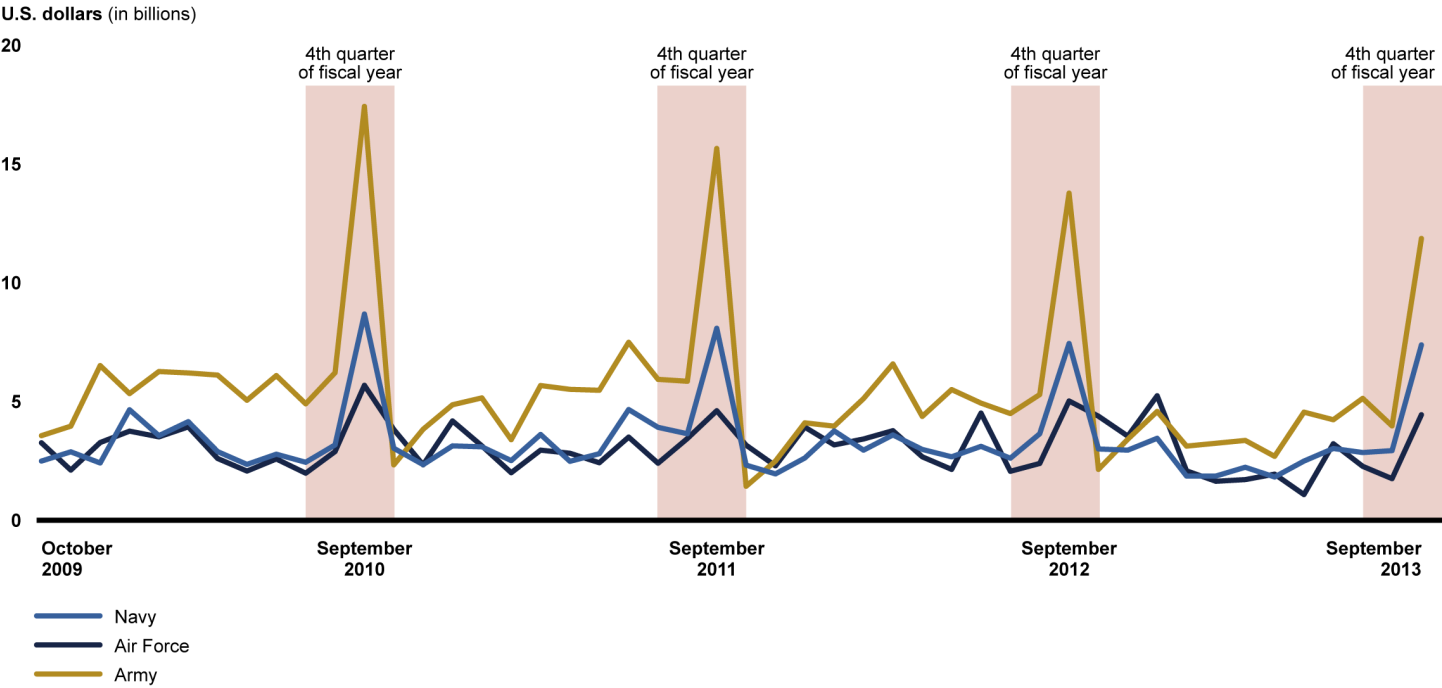
<sup>a</sup>As indicated in the figure, DOD exceeded its total spending target, which was set below the spending limit, by a total of \$3.06 billion in fiscal year 2012. However, when taking into account the additional \$1.73 billion DOD set aside for unexpected costs, DOD exceeded its identified spending limit by \$1.34 billion. Numbers may not sum due to rounding.

Military departments took limited steps to adhere to spending targets in fiscal year 2012, which some military department budget officials attributed to late guidance from the Deputy Secretary of Defense. The guidance provided each component with a contract services spending target in June 2012, approximately 4 months before the end of the fiscal year, which Army and Air Force budget officials said did not allow enough time to implement spending limits in fiscal year 2012. Despite issuing guidance late in the fiscal year, DOD officials believed the department was on track to meet the aggregate spending limit as of June 2012. However, military department budget officials said that they spent more on contract services in the last quarter of the fiscal year than budgeted due to additional funding for contract services made available through reprogramming, which allows for the shifting of funds for contract services requirements that were not planned for the when the appropriation was made.

As shown in figure 3, the military departments have historically increased contract services obligations during the last quarter of the fiscal year. Further, an Army budget official explained that the Army exceeded its fiscal year 2012 target by more than \$2 billion due in part to poor budget estimates, which were not informed by the Army's inventory of contracted

services data that indicated spending in excess of the target, and other costs that are not taken into account when budgeting, such as reprogramming.<sup>19</sup>

**Figure 3: DOD Service Contract Obligations, by Month, Fiscal Years 2010-2013**



Source: GAO analysis of federal procurement data. | GAO-15-115

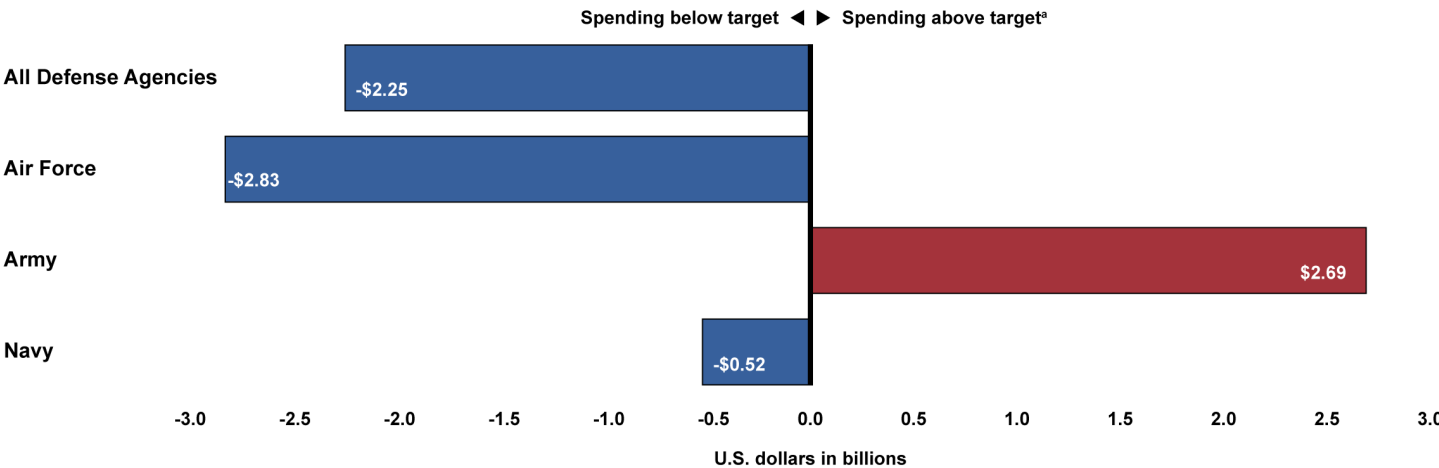
Note: All dollars are in nominal terms, unadjusted for inflation

In fiscal year 2013, DOD reported spending \$1.81 billion less than its identified spending limit of \$57.46 billion. The Deputy Secretary’s June 2012 guidance also set contract services spending targets for each of the components for fiscal year 2013 below the aggregate spending limit to

<sup>19</sup>The Army uses the Contractor Manpower Reporting Application System as the basis for its annual inventory. This system includes the Panel for Documentation of Contractors module, which contains data provided by the individual Army commands on their planned contract services spending and is used by the Army to conduct the annual inventory review.

allow for some unexpected costs during the year.<sup>20</sup> DOD reported spending less than the limit, but adherence to targets varied across the components. Similar to fiscal year 2012, defense agencies as a group spent under their target; however, adherence to targets varied, with some agencies, such as DLA, continuing to exceed their individual spending targets. Adherence to targets by the military departments varied, with the Army exceeding its fiscal year 2013 spending target by \$2.69 billion, while the Air Force obligated \$2.83 billion less than its target, and the Navy obligated over \$500 million less than its target, as shown in figure 4.

Figure 4: Spending on Contract Services against Targets in Fiscal Year 2013



Source: GAO analysis of DOD financial data. | GAO-15-115

Note: All dollars are in nominal terms, unadjusted for inflation.

<sup>a</sup>In total, DOD obligated less than its target, which was set below the estimated spending limit, by a total of \$2.91 billion in fiscal year 2013. After issuing guidance in June 2012 on the spending targets, DOD revised its contract services spending limit, lowering it by \$1.58 billion. When taking into account the additional \$473 million DOD set aside in its targets for unexpected costs and the reduction of the spending limit by \$1.58 billion, DOD spent less than its identified limit by \$1.81 billion.

We found that budget officials from the components that met their spending targets in fiscal year 2013 implemented improved planning and oversight of contract services spending. Improvements included soliciting

<sup>20</sup>In June 2012, DOD estimated a contract services spending limit of \$59.04 billion for fiscal year 2013 and provided targets to the components totaling \$58.56 billion, which set aside \$474 million for unexpected costs. Thereafter, DOD reduced its final spending limit by \$1.58 billion to \$57.46 billion when adjustments to the baseline were finalized at the end of fiscal year 2013.

contract services budget estimates from commands—an organizational sub-unit of a military department or defense agency— during the annual budget process, providing each command with individual contract services spending targets, and monitoring contract services spending during the year to ensure compliance with section 808 spending limits.<sup>21</sup> As shown in table 2, the components we included in our review took varying approaches to manage contract services spending limits.

**Table 2: Components’ Actions to Manage Contract Services Spending in Fiscal Year 2013**

Component	Solicited Commands’ Input	Set Command Spending Targets	Monitored Command Spending	Adhered to DOD Targets
Air Force	✓	✓	✓	Yes
Army		✓		No
Navy	✓		✓	Yes
Defense Logistics Agency				No
Defense Threat Reduction Agency	✓	✓	✓	Yes

Source: GAO analysis of information provided by DOD officials. | GAO-15-115

For example, the Air Force Financial Management and Comptroller Office provided each command with a ceiling on their contract services through their annual funding letter. According to Air Force officials, these ceiling amounts were based on planning documents, which included annual budget estimates for contract services, provided by each command prior to the start of the fiscal year. Throughout the year, Air Force Financial Management officials monitored monthly spending reports and communicated with commands to ensure that they adhered to their targets and made adjustments to the allocation of funds among commands when necessary. Additionally, these officials planned for potential reprogramming and reviewed reprogramming actions to ensure that they would not result in the Air Force exceeding its spending target, as it did in fiscal year 2012. Similarly, DTRA spent less than its target in fiscal year 2013, which DTRA Comptroller officials attributed to allocating

<sup>21</sup>For the purposes of this report, we refer to commands to include DOD commands, directorates or other organizations that comprise the military departments and defense agencies.

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contract services spending targets among its organizations based on annual budget estimates for contract services and monitoring periodic reports on the execution of spending against these targets. Further, DTRA Comptroller officials stated that they prioritize mission requirements to ensure that the highest priority missions receive contract services funds, while lower priority mission needs may not receive such funds.

The Army Budget Office also provided spending targets to each command in fiscal year 2013; however, it did not solicit input from the commands on their spending plans to inform these targets. An Army manpower official said commands have generated contract services spending estimates through the Army's inventory of contracted services that could have been used by the budget office to inform contract services targets. Further, without incorporating such information from the commands, the Army Budget Office did not prioritize requirements to assist commands' planning efforts to meet their spending targets. For example, one Army command that we spoke with said it was difficult to meet the spending target without additional guidance to prioritize the types of services that should be reduced or eliminated to meet the target. Instead, these targets were based on each command's contract services spending in fiscal year 2012. In addition, according to an Army budget official, the Army Budget Office does not typically communicate with commands during the year to monitor spending, which limited the Army's ability to ensure adherence to the spending target. Similarly, DLA also exceeded their contract services spending target for fiscal year 2013. The DLA financial management official that we spoke with was not aware of the section 808 guidance that set contract services spending targets for each component, and therefore took no action to manage to the spending target identified in the guidance.

*Standards for Internal Control in the Federal Government* call for government agencies to take actions to ensure accountability and stewardship of the government's resources.<sup>22</sup> In fiscal year 2013, the improved planning and stronger fiscal controls over contract services by the Air Force helped it to spend \$2.83 billion less than its target. By contrast, the Army did not take similar actions for contract services and subsequently exceeded its target by more than \$2 billion in fiscal year

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<sup>22</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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2013, as it did in fiscal year 2012. Improved planning and consistent implementation of fiscal controls across the department could better enable DOD to manage contract services spending and achieve future savings.

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## Accuracy of Funding Reductions for Closely Associated with Inherently Governmental Functions Could Not Be Determined

Comparable and timely data are not available to determine if DOD implemented the mandated funding reductions for contractor performance of closely associated with inherently governmental functions. DOD's section 808 guidance instructs the components to rely on the pre-existing inventory process to identify and measure these reductions, but the fiscal year 2011 inventory guidance, issued prior to the enactment of section 808, did not require components to report the obligation data necessary to do so in their review certification letters—documentation of the results of the inventory review that identifies the performance of closely associated with inherently governmental functions. DOD subsequently updated its inventory guidance for fiscal year 2012 to collect obligation data and again for fiscal year 2013 to require components to report on how the section 808 required reductions were achieved in fiscal years 2012 and 2013. However, two years of obligation data will not be available until after the statutory requirement has expired in September 2014.

Section 808 requires the Secretary of Defense to issue guidance to the components to implement reductions in funding for closely associated with inherently governmental functions by 10 percent in fiscal years 2012 and 2013. DOD issued guidance in June 2012, which instructed components to use the information reported in the fiscal year 2011 inventory as the baseline for the 10 percent funding reduction. However, the 2011 inventory guidance was issued prior to the passage of section 808 and therefore did not call for reporting the necessary obligation data to establish a baseline for these reductions.<sup>23</sup> Two of the 29 components—Army and Air Force—that submitted inventory review certification letters reported obligations for closely associated with

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<sup>23</sup>Memorandum from Offices of the Secretary of Defense to Secretaries of the Military Departments and Heads of Defense Agencies, Subject: Guidance for the Submission and Review of the Fiscal Year 2011 Inventory of Contracts for Services, December 29, 2011.

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inherently governmental functions for fiscal year 2011.<sup>24</sup> DOD updated its guidance for the fiscal year 2012 inventory review to require components to report more detailed information on closely associated with inherently governmental functions and as a result 13 components identified such obligation data in 2012.<sup>25</sup> However, the Air Force did not complete an inventory review in 2012 and the Army was the only component that reported obligations associated with closely associated with inherently governmental functions for both the 2011 and 2012 fiscal years. Without obligation data for closely associated with inherently governmental functions from the other components in their 2011 inventory review letters, DOD does not have the data necessary to determine the funding amount to meet the 10 percent reductions for fiscal years 2012 and 2013.

Although the Army is the only component to report obligation data for closely associated with inherently governmental functions in fiscal years 2011 and 2012, we found that these data are not comparable due to changes in selection methodology.<sup>26</sup> The Army reported \$8.5 billion in these obligations in its fiscal year 2011 inventory review and issued guidance instructing each command to reduce their obligations associated with these functions by 10 percent. In fiscal year 2012, the Army reported \$4.5 billion in obligations associated with closely associated with inherently governmental functions, showing a reduction of nearly 50 percent when compared to the obligations reported in 2011. However, Army manpower officials were not able to identify how these reductions were achieved, but explained that their 2012 review certification letter did not include complete input from all commands. For example, the command that accounted for the largest reduction in these functions from 2011 to 2012 attributed it to the transfer of responsibility for these functions to another command. The command that assumed responsibility for these functions did not include them in its 2012 inventory

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<sup>24</sup>As we reported in May 2013, the Air Force submitted an interim review certification letter to the Office of Personnel and Readiness for 2011 based on a 30 percent review of contracts, but provided GAO with updated results based on an 80 percent review of contracts. [GAO-13-491](#).

<sup>25</sup>Memorandum from Offices of the Secretary of Defense to Secretaries of the Military Departments and Heads of Defense Agencies, Subject: Guidance for the Submission and Review of the Fiscal Year 2012 Inventory of Contracts for Services, February 4, 2013.

<sup>26</sup>Results of the fiscal year 2013 inventory review, including the identification of closely associated with inherently governmental functions, are expected to be submitted in the first quarter of fiscal year 2015.

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review and as a result these previously identified closely associated with inherently governmental functions were not accounted for in the Army's 2012 inventory review certification letter.

Moreover, while components are improving their annual inventories each year to report more detailed information on closely associated with inherently governmental functions, Personnel and Readiness officials said that data collected through the inventory may not be comparable from year to year due to changes in methodology. For example, DOD's guidance for the fiscal year 2011 inventory review instructed components to review at least 50 percent of the contract actions reported in the inventory to identify these functions, while guidance for fiscal year 2012 called for a review of 80 percent of contract functions. Further, officials from the components reported various interpretations of the 80 percent review guidance. For example, the Army and DLA reported reviewing 80 percent of the contract dollar amounts identified in their inventory, while DTRA reported reviewing 80 percent of the contract awards or modifications. In addition, the fiscal year 2013 guidance does not specify the percent of contract actions or percent of total dollar amounts that should be reviewed for 2013 and as a result continues to limit comparison of data collected across fiscal years. In November 2014, we recommended that DOD update its annual inventory review guidance to clarify this review requirement and DOD agreed to update its guidance for future years.<sup>27</sup>

The Office of Readiness and Force Management issued additional guidance in May 2014 requiring components to identify the steps taken to implement funding reductions in closely associated with inherently governmental functions in fiscal years 2012 and 2013. If components did not achieve the full 20 percent reduction for fiscal years 2012 and 2013, they were also instructed to identify any additional carryover reductions to be taken in fiscal year 2014 to achieve the full 20 percent reduction, as required by the NDAA for Fiscal Year 2014. However, these carryover reduction amounts will not be identified until fiscal year 2015, after the statutory requirement to implement these additional reductions in 2014 has expired. In addition, it is unclear what data will be reported to demonstrate compliance with section 808 given the lack of data from 2011 to establish a baseline for reductions and the differing selection

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<sup>27</sup> [GAO-15-88](#)

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methodology used each year to identify these functions. We will assess the data reported in the fiscal year 2013 inventory review certification letters when they become available and report on results in fiscal year 2015.

Given the lack of comparable inventory data, officials at some DOD components that we spoke with identified other data sources to measure these reductions during the fiscal year 2013 inventory review. For example, DTRA officials relied on actual expenditures reported for advisory and assistance services—a subset of contract services recorded in the department’s financial system—to show reductions in obligations for closely associated with inherently governmental functions. According to these officials, they relied on the advisory and assistance services category due to the similarities between closely associated with inherently governmental functions and the types of services captured by the category, such as analyses or evaluations that support budget and acquisition decisions.<sup>28</sup> Further, advisory and assistance services have been recorded in the annual budget since 1994, allowing DTRA officials to budget a reduction and track spending in the category. Personnel and Readiness officials agreed that the advisory and assistance budget category provides an alternative to measure reductions, but noted that these data have their own limitations. For example, we found in 2008 that the identification of advisory and assistance services is subjective and agencies experienced challenges linking obligations reported for these categories to specific contracts to provide oversight.<sup>29</sup> Based on the challenges presented by the currently available data sources, the Personnel and Readiness officials said that DOD does not currently have the tools in place to measure funding reductions for specific contract functions. Nevertheless, data collected through other available sources may help DOD corroborate data obtained from prior inventory reviews and assist in validating whether funding reductions for closely associated

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<sup>28</sup>Advisory and assistance services are defined by Office of Management and Budget guidance, *Circular No. A-11: Preparation, Submission, and Execution of the Budget*, and include management and professional support services, evaluations, engineering, and technical services, among other things. *Office of Management and Budget CIRCULAR No. A-11, at 12-14, Section 83 (2012)*. See also, *FAR § 2.101*.

<sup>29</sup>GAO, *Federal Contracting: Congressional Action Needed to Address Long-standing Problems with Reporting of Advisory and Assistance Services*, [GAO-08-319](#) (Washington, D.C.: Mar. 31, 2008).

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with inherently governmental functions have been achieved for fiscal years 2012 and 2013.

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## The Extent to Which DOD Has Implemented Staff Augmentation Reductions Is Not Yet Known

DOD has not yet determined if funding reductions in staff augmentation—contractors under the direction of a government official other than a contracting officer—were implemented due to insufficient guidance and management attention. Section 808 instructs DOD to issue guidance to the components to implement a 10 percent reduction in funding for staff augmentation contracts and to identify responsible management officials to ensure that reductions are achieved. DOD's section 808 guidance, issued in June 2012, instructs each component to identify responsible management officials to ensure that section 808 requirements, including staff augmentation reductions, are met, but officials from only one of the five components that we spoke with were able to clearly identify an official responsible for implementing staff augmentation funding reductions. The June 2012 guidance also identifies a number of officials, including Comptroller and Personnel and Readiness officials, as points of contact for questions on the implementation of the guidance. However, in speaking with these officials, none considered themselves responsible for oversight to ensure implementation of reductions in staff augmentation. In the absence of this oversight, officials at some components stated that they had not measured reductions in staff augmentation funding because they had not been directed on how to report the results.

DOD's section 808 guidance also lacked clarity in how reductions in staff augmentation funding should be implemented and measured. The guidance notes that these funding reductions were factored into budget requests for fiscal years 2012 and 2013, but does not specify the amounts of these budgeted reductions or the data source that should be used to determine if the reduction was achieved. In response to section 802 of the NDAA for Fiscal Year 2014 that requires DOD to implement reductions in 2014 if they were not achieved in 2012 and 2013, DOD issued supplemental guidance in May 2014 instructing components to report on actions taken to implement staff augmentation reductions in their fiscal year 2013 inventory review certification letters. However, this guidance did not provide any direction to the components on how to apply the statutes definition of staff augmentation or the data that should be used to measure compliance with the requirement. As a result, components that we spoke with provided varying interpretations of how to report on the staff augmentation requirement and were still determining how to report on these reductions in their 2013 inventory review certification letters. For example,

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- Army manpower officials planned to use a combination of inherently governmental and authorized and unauthorized personal services contractor data reported through the inventory review process.
  - DTRA interpreted the definition of staff augmentation contained in the law as synonymous with closely associated with inherently governmental functions and measured the reduction using the advisory and assistance services category tracked through the department's financial system.
  - DLA officials planned to identify staff augmentation funding using select product service codes for professional, administrative, and management support services from the Federal Procurement Data System-Next Generation. However, they noted that it would be challenging to manually verify if all contracts identified were in fact for staff augmentation services.

The results of the 2013 inventory review will not be reported until fiscal year 2015, after the statutory requirement to implement reductions has expired. As a result, if DOD components identify any additional reductions needed to comply with section 808 they will have to be implemented outside of the timeframes specified in section 808. In addition, as shown above, the methods used to measure reductions will likely vary among the components. We will assess the fiscal year 2013 inventory review certification letters when they become available and report on the results in 2015.

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## Conclusions

DOD has not fully implemented the steps necessary to effectively manage the section 808 limitations on contract services required by law. By inconsistently excluding categories of services and overestimating the allowable spending, DOD did not accurately measure compliance with contract services spending limits. Implementation of improved fiscal controls by the Air Force helped DOD to better manage contract services spending in fiscal year 2013, but wider use of effective fiscal controls by all defense components could help DOD realize intended efficiencies and effective management of contract services spending. The significant discrepancies among the military departments' adherence to the contract services spending targets signal that more could be done to ensure that the department has the information necessary to budget and manage contract services spending. Moreover, in the absence of the data necessary to reliably measure reductions in funding associated with closely associated with inherently governmental functions and staff augmentation contracts, DOD is not in a position to know whether required

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reductions have been achieved. As a result, DOD may need additional time to determine whether those reductions have been implemented.

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## Matter for Congressional Consideration

To ensure that DOD takes action to implement required funding reductions in closely associated with inherently governmental functions and staff augmentation contracts, Congress should consider extending the time period for DOD to achieve the reductions.

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## Recommendations for Executive Action

To ensure the management of the required portfolio of contract services and that required reductions are achieved we recommend that the Secretary of Defense take the following four actions:

- Ensure that the Comptroller updates the department's methodology for determining compliance with the aggregate spending limit for 2014 to:
  - Consistently calculate the civilian personnel adjustment to take into account any categories of services excluded from the spending limit.
  - Adjust the spending limit to exclude research and development obligations from both the limit and actual expenditures as required.
- Evaluate fiscal controls used by the military departments to identify effective practices and ensure they are consistently implemented to improve the management of contract services spending.
- Given the limitations of the data available from the inventory of contracted services for fiscal years 2011 and 2012, direct the Office of Personnel and Readiness to identify additional data sources to corroborate data with that reported in the fiscal year 2013 inventory to help ensure funding reductions called for in the law are implemented.

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## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in appendix II, DOD concurred with the four recommendations. The Department concurred with our first recommendation to consistently calculate the civilian personnel

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adjustment and stated that it plans to reevaluate the civilian personnel adjustment to account for categories of services excluded from the spending limit in the future. In response to the second recommendation, DOD agreed to adjust the spending limit to exclude research and development obligations from the limit and actual expenditures. DOD concurred with the third recommendation to evaluate fiscal controls and the fourth recommendation to identify data sources that corroborate inventory data, but did not provide any further details on the implementation plans for these actions. We also received technical comments from DOD, which were incorporated as appropriate.

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We are sending copies of this report to the Secretary of Defense and interested congressional committees. In addition the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202)512-4841 or [makm@gao.gov](mailto:makm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Marie A. Mak  
Director, Acquisition and Sourcing Management

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### *List of Committees*

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United States Senate

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The Honorable Pete Visclosky  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

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# Appendix I: Objectives, Scope and Methodology

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The objectives for this review were to determine the extent to which the Department of Defense (DOD) implemented the requirements of section 808 of the National Defense Authorization Act (NDAA) for Fiscal Year 2012, in fiscal years 2012 and 2013 to (1) limit its service contract spending, (2) reduce funding for closely associated with inherently governmental functions by 10 percent each year, and (3) reduce funding for staff augmentation contracts by 10 percent each year.

To determine the extent to which DOD implemented the service contract spending limit in fiscal years 2012 and 2013, we reviewed relevant laws and DOD guidance, analyzed Office of the Under Secretary of Defense (OUSD) Comptroller data, and interviewed DOD budget officials. Specifically, we reviewed DOD's section 808 guidance, issued in June 2012, and compared this guidance to the law. Further, we reviewed the Comptroller's methodology for calculating the spending limit by analyzing contract services budget and funding data—categorized as object class code 25 by the Office of Management and Budget Circular No. A-11.<sup>1</sup> To ensure that the total contract services spending data provided by the Comptroller included all contract services expenditures by the department, we compared the Comptroller data to contract services spending reported in the Federal Procurement Data System-Next Generation and found that the data were within a reasonable range and sufficiently reliable for our purposes.<sup>2</sup> To determine the steps taken by individual DOD components to implement controls over contract services spending, we interviewed and collected information from budget officials at the OUSD Comptroller's Office, the military departments, the Defense Threat Reduction Agency (DTRA) and the Defense Logistics Agency (DLA), which reported the highest obligations for closely associated with inherently governmental functions among the defense agencies in the fiscal year 2012 inventory.

To assess the extent to which DOD components reduced funding for closely associated with inherently governmental functions by 10 percent in fiscal year 2012, we reviewed relevant laws, guidance, and data from the inventory of contracted services certification review letters for fiscal

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<sup>1</sup>Office of Management and Budget, *Circular No. A-11: Preparation, Submission, and Execution of the Budget*.

<sup>2</sup>The Federal Procurement Data System-Next Generation is the primary government-wide contracting database that provides information on all government contracting actions.

years 2011 and 2012, the most recent data available when our review was initiated. We reviewed DOD's section 808 guidance, issued in June 2012, which identified fiscal year 2011 inventory of contracted services data as the basis to measure reductions in fiscal years 2012 and 2013. We also reviewed DOD's annual inventory guidance for fiscal years 2011 through 2013 to determine if the information necessary to measure section 808 compliance was required by the guidance.

To identify the data available to establish a baseline for the required funding reductions in closely associated with inherently governmental functions, we reviewed prior GAO work on DOD's fiscal year 2011 inventory and reviewed the certification letters submitted by 29 components for the fiscal year 2011 review. In addition, we analyzed the review certification letters submitted by 32 DOD components for the fiscal year 2012 inventory review and compared these letters to those submitted for 2011 to determine if components reported relevant data on funding for closely associated with inherently governmental functions to measure reductions. In addition, we interviewed officials responsible for compiling and reviewing the inventory data at the departments of the Army, Navy, and Air Force, and two selected DOD agencies—DLA and DTRA—that reported the highest obligations for closely associated with inherently governmental functions among the defense agencies in the fiscal year 2012 inventory. As the Army was the only component to identify obligations for closely associated with inherently governmental functions in both years, we interviewed officials from selected Army Commands—the Army Installation Command, Army Materiel Command and Acquisition Support Center—whose data showed the largest change in closely associated with inherently governmental functions from 2011 through 2012.

To assess the extent to which the components implemented the required reduction in funding for staff augmentation contracts by 10 percent each year, we reviewed relevant laws and guidance and interviewed officials from OSD, the military departments and selected defense agencies. Specifically, we reviewed DOD's section 808 guidance, issued in June 2012, to determine the steps taken by DOD to implement the reduction in staff augmentation funding. Further, we interviewed OSD officials from the office of Defense Procurement and Acquisition Policy, the Office of the Under Secretary for Personnel and Readiness and the office of Cost Assessment and Program Evaluation to identify available data to measure reductions in staff augmentation funding. In addition, we interviewed officials from the military departments, DTRA, and DLA to

identify the responsible management official at each component and the steps taken to implement the reduction in staff augmentation funding.

We conducted this performance audit from March 2014 to December 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

DEC 03 2014

Ms. Marie A. Mak  
Acting Director, Acquisition and Sourcing Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington DC 20548

Dear Ms. Mak:

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-15-115, "DOD CONTRACT SERVICES: Improved Planning and Implementation of Fiscal Controls Needed," dated October 20, 2014 (GAO Code 100013). The Department appreciates the GAO's work on this engagement, as well as the opportunity to review and comment on this draft report.

The Department concurs with recommendations two and three. The Department concurs with comment on recommendation one. Specifically, we will reevaluate the civilian personnel adjustment to account for categories of civilian employees excluded from the contract spending limit in future reports. In addition, we will adjust the spending limit to exclude research and development obligations from both the limit and actual expenditures in future reports.

Sincerely,

A handwritten signature in blue ink, appearing to read "Monique Dilworth", is located above the printed name.

Monique Dilworth  
Director, Operations Directorate

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Marie A. Mak, (202)512-4841 or [makm@gao.gov](mailto:makm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, W. William Russell, Assistant Director; Beth Reed Fritts; Jonathan Munetz; and Suzanne Sterling made significant contributions to this review. In addition, Pete Anderson, Virginia Chanley, Julia Kennon, John Krump, and Ozzy Trevino made key contributions to this report.

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